EPHRAIM MOGALE LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

General Information

Legal form of entity	Municipality
Mayor	Me MY Mmakola
Executive Committee	
	Cllr. KN Kekana
	Cllr. MF Ratau
	Cllr. EM Monyamane
	Cllr. LJ Mphahlele
	Cllr. WM Mabaso
	Cllr. MG Phefadi
Councillors	
	Cllr. LJ Shalang
	Cllr. LB Modisha
	Cllr. MR Seono
	Cllr. ST Mohlobogwane
	Cllr. SC Mamogobo
	Cllr. MK Selamolela
	Cllr. MJ Nchabeleng
	Cllr. JS Motsepe
	Cllr. B Esson
	Cllr. MF Maibelo
	Cllr. HSM Bokaba
	Cllr. MM Kekana
	Cllr. P Ranoto
	Cllr. OE Sebothoma
	Cllr. EM Tshiguvhu
	Cllr. MF Matlala
	Cllr. GN Makanyane
	Cllr. NR Ngobeni
	Cllr. ME Moraswi
	Cllr. K Seoka
	Cllr. MG Phala
	Cllr. BG Mashego
	Cllr. MS Chauke
	Cllr. JH Bogopa
	Cllr. ET Sehlola
Grading of local authority	Low Capacity Municipality
Chief Finance Officer (CFO)	Mr C Makgopa (Acting)
Accounting Officers	
	Mr MJ Lekola (Acting)
Registered office	Ephraim Mogale LIM471

General Information

Business address	Ficus Street Civic Centre Marble Hall 0450
Postal address	PO Box 111 Marble Hall 0450
Bankers	First National Bank Limited
Auditors	Auditor General

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officers have reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 53, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2012 and were signed on its behalf by:

Mr MJ Lekola (Acting)

30 August 2012

Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2012.

1. Review of activities

Main business and operations

Net deficit of the municipality was R 13 436 948 (2011: deficit R 5 691 589).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officers' interest in contracts

The accounting officer had no interest in contracts.

5. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Non-current assets

Details of major changes in the nature of the non-current assets of the municipality during the year is set out in the notes to the financial statements.

7. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name	Nationality	Changes
Mr SR Monakedi	South African	Contract Expired 30 April 2012
Mr MJ Lekola (Acting)	South African	Appointed 01 May 2012

8. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practices.

Councillors

The Councillors:
- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;
- is of a unitary structure comprising:
  - - non-executive councillors, all of whom are independent directors as defined in the Code; and
  - - executive councillors.

Accounting Officer's Report

Executive meetings

The executive meetings were held on 5 separate occasions during the financial year. The executive committee schedules to meet at least 4 times per annum.

Non-executive councillors have access to all members of management of the municipality.

Audit committee

Adv MJ Ralefatane was the chairperson of the audit committee. The committee met 3 times during the financial year to review matters necessary to fulfil its role.

In terms of Section 166 of the Municipal Finance Management Act, the municipality must appoint members of the Audit Committee.National Treasury regulation requires that municipalities should appoint further members of the municipality's audit committee who are not councillors

Internal audit

The municipality has an internal audit division.

9. Bankers

The municipality banks primarily with First National Bank Limited.

10. Auditors

The Auditor General will continue in office for the next financial period.

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	7	691 443	476 807
Receivables from exchange transactions	8	5 638 797	4 835 995
VAT receivable	9	-	1 531 241
Consumer debtors	10	4 436 320	4 905 760
Cash and cash equivalents	11	13 229 893	8 048 089
		23 996 453	**19 797 892**
Non-Current Assets			
Investment property	3	63 917 414	63 917 414
Property, plant and equipment	4	776 702 498	795 826 873
		840 619 912	**859 744 287**
Total Assets		**864 616 365**	**879 542 179**
Liabilities			
Current Liabilities			
Other financial liabilities	12	-	538 073
Operating lease liability	5	142 889	165 378
Payables from exchange transactions	14	14 947 196	17 169 416
VAT payable	15	873 785	-
Consumer deposits	16	1 657 168	1 621 112
Retirement benefit obligation	6	7 409 162	5 683 162
Unspent conditional grants and receipts	13	5 613 725	-
		30 643 925	**25 177 141**
Non-Current Liabilities			
Other financial liabilities	12	-	6 955 652
Total Liabilities		**30 643 925**	**32 132 793**
Net Assets		**833 972 440**	**847 409 386**
Net Assets			
Accumulated surplus		833 972 440	847 409 386

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Agency fees		1 789 351	2 039 970
Property rates	18	11 215 705	10 565 300
Service charges	19	33 149 311	26 297 470
Rental of facilities and equipment	17	155 437	116 597
Fines	17	223 424	214 137
Licences and permits	17	4 331 498	3 640 355
Government grants & subsidies	20	80 291 425	85 784 358
Recoveries	21	31 961	134 531
Other income	21	1 058 333	873 780
Interest received	28	922 615	998 453
Interest received - other	28	3 192 963	2 788 515
Total Revenue		**136 362 023**	**133 453 466**
Expenditure			
Personnel	24	(38 497 026)	(34 314 710)
Remuneration of councillors	25	(8 867 091)	(6 678 680)
Administration	26	(94 486)	(87 321)
Depreciation and amortisation	29	(37 491 261)	(32 575 115)
Finance costs	30	(1 012 062)	(1 200 193)
Debt impairment	27	(2 612 637)	(5 737 263)
Repairs and maintenance		(6 993 698)	(3 299 603)
Bulk purchases	33	(17 671 187)	(14 656 946)
Grants and subsidies paid		(624 409)	(2 863 442)
Loss on disposal of assets		(461 561)	(110 826)
General Expenses	22	(34 137 553)	(37 620 956)
Total Expenditure		**(148 462 971)**	**(139 145 055)**
Actuarial gains / (losses)		(1 336 000)	-
Surplus/(deficit) for the year		**(13 436 948)**	**(5 691 589)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	959 783 457	959 783 457
Adjustments		
Correction of errors	7 233	7 233
Prior year adjustments	(106 689 715)	(106 689 715)
Balance at 01 July 2010 as restated	**853 100 975**	**853 100 975**
Changes in net assets		
Surplus for the year	(5 691 589)	(5 691 589)
Total changes	(5 691 589)	(5 691 589)
Opening balance as previously reported	954 099 104	954 099 104
Adjustments		
Prior year adjustments - Note 39	(106 689 716)	(106 689 716)
Balance at 01 July 2011 as restated	**847 409 388**	**847 409 388**
Changes in net assets		
Surplus for the year	(13 436 948)	(13 436 948)
Total changes	(13 436 948)	(13 436 948)
Balance at 30 June 2012	**833 972 440**	**833 972 440**

Note(s)

Ephraim mogale local municipality
Annual Financial Statements for the year ended 30 June 2012

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Cash receipts from customers,grant and other sources of revenue		-	129 448 714
Sale of goods and services		45 221 752	-
Grants		80 291 425	-
Interest income		922 615	998 515
Property rates		8 680 498	-
Other income		1 213 769	-
		136 330 059	130 447 229
Payments			
Employee costs		(47 364 115)	-
Cash payments for inventory, suppliers and employ related cost		(55 113 902)	(104 998 075)
Finance costs		(1 012 062)	(1 200 193)
		(103 490 079)	(106 198 268)
Net cash flows from operating activities	34	**32 839 980**	**24 248 961**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(19 147 381)	(16 724 260)
Proceeds from sale of property, plant and equipment	4	318 929	(110 826)
Purchase of investment property	3	-	(395 562)
Net cash flows from investing activities		**(18 828 452)**	**(17 230 648)**
Cash flows from financing activities			
Repayment of other financial liabilities		(8 829 725)	(464 831)
Net cash flows from financing activities		**(8 829 725)**	**(464 831)**
Net increase/(decrease) in cash and cash equivalents		**5 181 803**	**6 553 482**
Cash and cash equivalents at the beginning of the year		8 048 090	1 494 608
Cash and cash equivalents at the end of the year	11	**13 229 893**	**8 048 090**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

1.1 Transfer of functions between entities under common control

Definitions

An acquirer is the municipality that obtains control of the acquiree or transferor.

Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position.

Control is the power to govern the financial and operating policies of another municipality so as to benefit from its activities.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an municipality's objectives, either by providing economic benefits or service potential.

A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.

Transfer date is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another municipality.

A transferor is the municipality that relinquishes control of a function.

Common control - For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an municipality's objectives, either by providing economic benefits or service potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole municipality. Although functions may have outputs, outputs are not required to qualify as a function. The three elements of a function are defined as follows:

- Input: Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it.
- Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.
- Output: The result of inputs and processes applied to achieve and improve efficiency. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

Accounting Policies

1.1 Transfer of functions between entities under common control (continued)

Identifying the acquirer and transferor

For each transfer of functions between entities under common control an acquirer and transferor are identified. All relevant facts and circumstances are considered in identifying the acquirer and transferor.

The terms and conditions of a transfer of functions undertaken between entities under common control are set out in a binding arrangement. The binding arrangement governing the terms and conditions of a transfer of functions may identify which municipality to the transaction or event is the transferor(s) and which municipality is the acquirer. Where the binding arrangement does not clearly identify the acquirer or the transferor, the behaviour or actions of the entities may indicate which municipality is the acquirer and which municipality is the transferor.

Determining the acquirer includes a consideration of, amongst other things, which of the entities involved in the transfer of functions initiated the transaction or event, the relative size of the entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event is accounted for in terms of the Standard of GRAP on Mergers.

Determining the transfer date

The acquirer and the transferor identify the transfer date, which is the date on which the acquirer obtains control and the transferor loses control of that function.

All relevant facts and circumstances are considered in identifying the transfer date.

Assets acquired [transferred] and liabilities assumed [relinquished]

The derecognition of assets and liabilities, is subject to the following conditions:

The assets transferred and the liabilities relinquished are part of what had been agreed in terms of the binding arrangement (if applicable), rather than the result of separate transactions.

Determining what is part of the transfer of functions transaction

Where the municipality and the acquirer have a pre-existing relationship before or when negotiations for a transfer of functions began, or where a binding arrangement is entered into during the negotiations that are separate from a transfer of functions, any amounts that are not part of what were transferred in a transfer of functions are identified. This policy only applies to the consideration received and the assets transferred and liabilities relinquished in a transfer of functions as governed by the terms and conditions of the binding arrangement.

The following factors are considered, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of a transfer or function or whether the transaction is separate:
- the reasons for the transaction
- the timing of the transaction

Accounting by the entity as transferor

Derecognition of assets transferred and liabilities relinquished

As of the transfer date, the municipality derecognises from its annual financial statements, all the assets transferred and liabilities relinquished in a transfer of functions at their carrying amounts.

The consideration received from the acquirer can be in the form of cash, cash equivalents or other assets. If the consideration received is in the form of other assets, the municipality measures such assets at their fair value on the transfer date in accordance with the applicable Standard of GRAP. The difference between the carrying amounts of the assets transferred, the liabilities relinquished and the consideration received from the acquirer is recognised in the statement of changes in net assets.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. .

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note - Provisions.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost / (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the enterprise, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

1.3 Mergers (continued)

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity apply the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

1.4 Property, plant and equipment (continued)

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	20 - 25 years
Plant and machinery	3 - 10 years
Furniture and fixtures	4 - 6 years
Motor vehicles	5 years
Office equipment	4 - 6 years
IT equipment	3 years
Computer software	3 years
Infrastructure	2 - 100 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

1.5 Financial instruments (continued)

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at settlement date.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Loans to / (from) economic entities

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Derivatives

1.5 Financial instruments (continued)

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Accounting Policies

1.5 Financial instruments (continued)

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Accounting Policies

1.6 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

1.8 Impairment of cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

1.8 Impairment of cash-generating assets (continued)

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.9 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of an asset is the present value of the asset’s remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction / (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation / (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation / (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.10 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

1.11 Employee benefits (continued)

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.12 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

1.12 Provisions and contingencies (continued)

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note .

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2012. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets was acquired through a transfer of functions, the municipality is not required to measure that provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2012 and provisions, contingent liabilities and contingent assets has accordingly been recognised at provisional amounts, as disclosed in .

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.13 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Accounting Policies

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.15 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management’s best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.23 Presentation of currency

These annual financial statements are presented in South African Rand.

Accounting Policies

1.24 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.25 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

1.26 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.27 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.28 Research and development expenditure

Research costs are charged against operating surplus as incurred. Development costs are recognised as an expense in the period in which they are incurred unless the following criteria are met:

- The product or process is clearly defined and the costs attributable to the process or product can be separately identified and measured reliably;
- The technical feasibility of the product or process can be demonstrated;
- The existence of a market or, if to be used internally rather than sold, its usefulness to the municipality can be demonstrated;
- Adequate resources exist, or their availability can be demonstrated, to complete the project and then market or use the product or process; and
- The asset must be separately identifiable.

Where development costs are deferred, they are written off on a straight-line basis over the life of the process or product, subject to a maximum of five years. The amortization begins from the commencement of the commercial production of the product or use of the process to which they relate.

1.29 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

Comparative information is not required.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

2.2 Standards and Interpretations early adopted

The municipality has not chosen to early adopt any standards and interpretations.

3. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	63 917 414	-	63 917 414	63 917 414	-	63 917 414

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	63 917 414	63 917 414

Reconciliation of investment property - 2011

	Opening balance	Additions	Total
Investment property	63 521 852	395 562	63 917 414

Figures in Rand	2012	2011

4. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	34 154 401	(6 957 732)	27 196 669	32 511 531	(2 597 033)	29 914 498
Motor vehicles	2 191 874	(986 817)	1 205 057	1 505 527	(589 785)	915 742
Office equipment	7 571 013	(5 160 742)	2 410 271	13 743 036	(10 887 714)	2 855 322
Infrastructure	82 480 035	(17 268 742)	65 211 293	72 725 490	(12 662 420)	60 063 070
Community	7 184 337	(604 051)	6 580 286	1 589 479	(438 605)	1 150 874
Other property, plant and equipment	32 349 787	(12 517 462)	19 832 325	33 586 948	(11 998 284)	21 588 664
Asset found	729 482 914	(75 216 317)	654 266 597	729 482 914	(50 144 211)	679 338 703
Total	**895 414 361**	**(118 711 863)**	**776 702 498**	**885 144 925**	**(89 318 052)**	**795 826 873**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Cost Disposed	Depreciation	Accumulated Depr - Disposal	Total
Buildings	29 914 498	1 642 870	-	(4 360 699)	-	27 196 669
Motor vehicles	915 742	686 347	-	(397 032)	-	1 205 057
Office equipment	2 855 322	795 121	(6 967 144)	(787 078)	6 514 050	2 410 271
Infrastructure	60 063 070	9 888 000	(133 455)	(4 619 668)	13 346	65 211 293
Community	1 150 874	5 594 858	-	(165 446)	-	6 580 286
Other property, plant and equipment	21 588 664	540 185	(1 777 346)	(2 089 232)	1 570 054	19 832 325
Infrastructure general assets found	679 338 703	-	-	(25 072 106)	-	654 266 597
	795 826 873	**19 147 381**	**(8 877 945)**	**(37 491 261)**	**8 097 450**	**776 702 498**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Cost on disposed assets	Depreciation	Depriciation on sold assets	Total
Land and Buildings	30 176 450	425 830	-	(687 782)	-	29 914 498
Motor vehicles	728 416	407 026	-	(219 700)	-	915 742
Office equipment	2 638 527	1 098 421	(25 362)	(874 564)	18 300	2 855 322
Infrastructure	64 116 023	282 247	-	(4 335 200)	-	60 063 070
Community	1 186 434	-	-	(35 560)	-	1 150 874
Other property, plant and equipment	9 367 397	14 510 736	(5 037 311)	(1 350 202)	4 098 044	21 588 664
Asset found	704 410 809	-	-	(25 072 106)	-	679 338 703
	812 624 056	**16 724 260**	**(5 062 673)**	**(32 575 114)**	**4 116 344**	**795 826 873**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

5. Operating lease liability

Current liabilities	(142 889)	(165 378)

The municipality entered into an operating lease to lease a number of small buildings utilised for community facilities. The lease escalate at 10% per annum and the lease is straight lined over the remaining timeframe of the lease. The accumulated accrual for future lease payments straightlining amounts to R (142 889), (2011) R (165 378).

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

6. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation-partially or wholly funded	(7 409 162)	(5 683 162)

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	463 036	231 518
Benefits paid	199 000	-
Net expense recognised in the statement of financial performance	1 925 000	231 518
Closing balance	**2 587 036**	**463 036**

Net expense recognised in the statement of financial performance

Current service cost	303 000	231 518
Interest cost	483 000	-
Actuarial (gains) losses	1 139 000	-
Total included in employee related costs	**1 925 000**	**231 518**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	1 139 000	-

Changes in the fair value of plan assets are as follows:

The municipality expects to contribute R 215 000 to its defined benefit plans in the following financial year.

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.25 %	8.64 %
Consumer price inflation	6.00 %	- %
Health care cost inflation	7.31 %	6.75 %

The basis on which the discount rate has been determined is as follow:

Accounting Standard IAS19 defines the determination of the investment return assumption to be used as the rate that can "be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. The currency and term of the corporate bonds or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations." As such a discount rate of 8.25% per annum has been used. This was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after the market closed on 27 June 2012.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

6. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	486 000	305 000
Effect on defined benefit obligation	6 306 000	8 789 000

7. Inventories

Stores, materials and fuels	691 443	476 807

Transitional provisions

Inventories recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note , certain inventories with a carrying value R691 443 (2011: R476 807) was recognised at provisional amounts. Carrying amounts of inventories carried at provisional amounts are as follows:

Due to initial adoption of GRAP 12

Inventory	691 443	476 807

8. Receivables from exchange transactions

Trade debtors	489 985	370 023
Other receivables	-	67 104
Sekhukhune Debtor	4 632 899	3 882 955
Debtor from prior year corrections	515 913	515 913
	5 638 797	**4 835 995**

9. VAT receivable

VAT	-	1 531 241

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

10. Consumer debtors

Gross balances		
Rates	8 668 974	6 781 342
Electricity	3 174 032	2 715 143
Refuse	1 486 561	1 707 344
Other - (Interest and other major items)	8 485 028	8 467 569
	21 814 595	**19 671 398**
Less: Provision for debt impairment		
Rates	(6 960 201)	(4 833 253)
Electricity	(1 065 663)	(683 029)
Refuse	(1 276 366)	(1 496 112)
Other - (Interest and other major items)	(8 076 045)	(7 753 244)
	(17 378 275)	**(14 765 638)**
Net balance		
Rates	1 708 773	1 948 089
Electricity	2 108 369	2 032 114
Refuse	210 195	211 232
Other - (Interest and other major items)	408 983	714 325
	4 436 320	**4 905 760**
Rates		
Current (0 -30 days)	603 213	678 237
31 - 60 days	117 685	132 241
61 - 90 days	60 373	102 903
91 - 120 days	47 761	76 954
121 - 150 days	38 447	49 515
150 days plus	841 294	908 239
	1 708 773	**1 948 089**
Electricity		
Current (0 -30 days)	1 793 805	1 729 115
31 - 60 days	124 973	151 828
61 - 90 days	29 997	28 971
91 - 120 days	23 920	12 511
121 - 150 days	6 553	8 315
150 days plus	129 121	101 374
	2 108 369	**2 032 114**
Refuse		
Current (0 -30 days)	115 871	131 155
31 - 60 days	12 505	7 840
61 - 90 days	5 194	4 738
91 - 120 days	3 383	3 626
121 - 150 days	3 164	3 290
150 Days plus	70 078	60 583
	210 195	**211 232**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

10. Consumer debtors (continued)

Other		
Current (0 -30 days)	158 900	283 278
31 - 60 days	25 037	17 223
61 - 90 days	10 169	38 419
91 - 120 days	(10 556)	30 126
121 - 150 days	7 311	17 619
150 Days plus	218 122	327 660
	408 983	**714 325**

Reconciliation of debt impairment provision		
Balance at beginning of the year	(14 765 638)	(9 757 852)
Additional contribution for the year to debt impairment provision	(2 612 637)	(5 539 363)
Amounts debited (written off) against provision	-	531 577
	(17 378 275)	**(14 765 638)**

Consumer debtors impaired

As of 30 June 2012, consumer debtors of R 21 814 595 (2011: R 19 671 398) were impaired and provided for.

The amount of the provision was R (17 378 275) as of 30 June 2012 (2011: R 14 765 638).

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	13 229 893	8 048 089

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
First National Bank Limited - Cheque Account (Acc No 52950020208)	16 399 596	6 756 866	13 196 447	4 480 613
First National Bank Limited - Cheque Account (PHP) (Acc No 62057590393)	33 446	33 986	33 446	33 986
Rand Merchant Bank Unit Trusts Limited: Money Market Fund (Acc No RU 500434945)	-	3 533 490	-	3 533 490
Total	**16 433 042**	**10 324 342**	**13 229 893**	**8 048 089**

Figures in Rand	2012	2011

12. Other financial liabilities

DBSA Loans	-	6 955 652
Held at amortised cost		
DBSA Loans Short term Capital Portion	-	251 639
Terms and conditions		
DBSA Short Term Interest Payments	-	286 434
Terms and conditions		
	-	**538 073**
	-	**7 493 725**
Non-current liabilities		
At amortised cost	-	6 955 652
Current liabilities		
At amortised cost	-	538 073
	-	**7 493 725**

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	5 728 238	-
MSIG	(114 513)	-
	5 613 725	**-**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 20 for reconciliation of grants from Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

14. Payables from exchange transactions

Trade payables	7 298 067	9 645 034
Accrued leave pay - Normal Leave	4 092 901	4 471 927
Accrued bonus	1 082 103	955 742
Accrued leave pay - Long Service Leave	1 895 118	1 538 118
Operating lease payables	398 173	375 683
Other creditors	180 834	182 912
	14 947 196	**17 169 416**

15. VAT payable

VAT	873 785	-

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

16. Consumer deposits

Deposits held	1 657 168	1 621 112

The Municipality also has consumer Guarantees amounting to R811 595 on 30 June 2012 (2011: R820 045)

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Revenue

Rendering of services	1 789 351	2 039 970
Property rates	11 215 705	10 565 300
Service charges	33 149 311	26 297 470
Rental of facilities & equipment	155 437	116 597
Fines	223 424	214 137
Licences and permits	4 331 498	3 640 355
Government grants & subsidies	80 291 425	85 784 358
	131 156 151	**128 658 187**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Rendering of services	1 789 351	2 039 970
Service charges	33 149 311	26 297 470
Rental of facilities & equipment	155 437	116 597
Licences and permits	4 331 498	3 640 355
	39 425 597	**32 094 392**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	11 215 705	10 565 300
Fines	223 424	214 137
Transfer revenue		
Levies	80 291 425	85 784 358
	91 730 554	**96 563 795**

18. Property rates

Rates received

Residential	11 215 705	10 565 300

Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2007. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2013 due to an extention granted by the MEC.

19. Service charges

Sale of electricity	30 418 654	23 743 794
Refuse removal	2 730 657	2 553 676
	33 149 311	**26 297 470**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

20. Government grants and subsidies

Equitable share	60 529 513	52 271 943
Municipal Infrastructure Grant	12 142 762	14 859 000
Municipal Systems Improvement Program Grant	790 000	864 513
Finance Management Grant	1 250 000	1 000 000
Integrated National Electrification Program Grant	-	1 539 000
Grant Horticultural Program	5 579 150	15 159 850
Sekhukhune District Asset grant received	-	418
Ward Committee Support	-	89 634
	80 291 425	**85 784 358**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	5 870 000
Current-year receipts	17 871 000	8 989 000
Conditions met - transferred to revenue	(12 142 762)	(14 859 000)
	5 728 238	**-**

Municipal Systems Improvement Program Grant

Balance unspent at beginning of year	-	114 513
Current-year receipts	790 000	750 000
Conditions met - transferred to revenue	(790 000)	(864 513)
Surrender to Equitable Share during the year	(114 513)	-
	(114 513)	**-**

Financial Management Grant

Current-year receipts	1 250 000	1 000 000
Conditions met - transferred to revenue	(1 250 000)	(1 000 000)
	-	**-**

All conditions have been met during the year.

DTI Organic Farming Grant

Current-year receipts	5 579 150	15 159 850
Conditions met - transferred to revenue	(5 579 150)	(15 159 850)
	-	**-**

Integrated National Electrification Programme Grant Paid directly to ESCOM

Current-year receipts	-	1 539 000
Conditions met - transferred to revenue	-	(1 539 000)
	-	**-**

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

21. Other revenue

Insurance refund	31 961	134 531
Sundry Income	1 058 333	873 780
	1 090 294	**1 008 311**

22. General expenses

Advertising	368 493	364 010
Assets expensed	-	526
Auditors remuneration	1 944 500	2 233 106
Bank charges	250 369	206 660
Chemicals	13 184	15 095
Cleaning	66 747	48 197
Community development and training	5 578 710	15 159 850
Conferences and seminars	38 650	46 803
Consulting and professional fees	7 210 106	5 018 929
Financial Management Grant Expense	1 250 000	1 000 000
Consumables	112 013	51 811
Donations	31 465	19 511
Municipal Consumption - Electricity	1 821 379	1 222 786
Entertainment	55 933	65 946
Insurance	378 372	252 737
Rentals	1 006 934	750 479
Inventory adjustments - stock losses	8 336	307 293
Marketing	205 139	672 327
Provision Post employment Medical expenses - Note 6	303 000	231 518
Motor vehicle expenses	1 829 508	596 885
General expenses	2 901 416	2 031 390
Postage and courier	126 231	110 031
Printing and stationery	797 481	717 615
Protective clothing	96 740	66 607
Refuse	168 866	154 961
Security (Guarding of municipal property)	2 340 344	1 978 358
Sewerage and waste disposal	19 938	16 543
Staff welfare	971 556	360 917
Stock written off	-	88
Subscriptions and membership fees	670 378	597 744
Telephone and fax	1 004 026	1 400 333
Training	606 042	363 066
Travel - local	1 853 403	1 280 346
Uniforms	5 500	500
Rental Property Services	-	139 407
Municipal Consumption - Water	102 794	138 581
	34 137 553	**37 620 956**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

23. Operating surplus/(deficit)

Operating surplus/(deficit) for the year is stated after accounting for the following:

Operating lease charges		
Premises		
• Contractual amounts	403 794	196 710
Equipment		
• Contractual amounts	603 140	553 769
	1 006 934	**750 479**

Loss on sale of property, plant and equipment	(461 561)	(110 826)
Depreciation on property, plant and equipment	37 491 261	32 575 115
Employee costs	47 364 117	40 993 390

24. Employee related costs

Basic	23 543 337	21 262 814
Bonus	1 734 638	1 252 845
Medical aid - company contributions	1 313 653	1 419 869
UIF	207 734	202 504
Other payroll levies	9 291	9 747
Leave pay provision charge	-	573 332
Short term benefit	59 713	64 473
Post-employment benefits - Pension - Defined contribution plan	4 760 956	4 661 660
Overtime payments	1 614 803	1 497 924
Long-service awards finance charges	112 000	-
Car allowance	779 714	878 600
Housing benefits and allowances	54 024	49 174
Provision Service Cost Long Service Leave	226 000	-
Post retirement contributions	483 000	-
	34 898 863	**31 872 942**

Remuneration of municipal manager

Salary	548 171	460 736
Car Allowance	108 460	159 131
Bonus	31 493	31 493
Contributions to UIF, Medical and Pension Funds	114 053	131 763
Reimbursive allowances	38 702	3 011
Cellphone allowance	14 520	15 840
	855 399	**801 974**

Remuneration of chief finance officer

Salary	611 082	611 353
Car Allowance	34 641	41 255
Contributions to UIF, Medical and Pension Funds	56 808	64 198
Reimbursive allowances	5 558	7 274
Cellphone allowance	11 110	12 120
	719 199	**736 200**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

24. Employee related costs (continued)

Director Corporate Services

Salary	517 608	381 771
Car Allowance	14 872	70 000
Bonus	27 629	30 000
Contributions to UIF, Medical and Pension Funds	90 821	82 854
Reimbursive allowances	16 181	31 629
	667 111	**596 254**

Director Community Services

Salary	435 000	116 831
Car Allowance	70 000	-
Bonus	30 000	-
Contributions to UIF, Medical and Pension Funds	81 702	18 029
Reimbursive allowances	7 189	4 362
	623 891	**139 222**

Director Technical Services

Salary	475 366	115 727
Car Allowance	114 000	23 818
Contributions to UIF, Medical and Pension Funds	107 877	24 364
Reimbursive allowances	35 320	4 209
	732 563	**168 118**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. Remuneration of councillors

Mayor	712 011	589 256
Chief Whip	508 568	434 623
Mayoral Committee Members	2 457 239	870 710
Speaker	516 108	461 105
Councillors	4 673 165	3 970 509
Skills development and travel	-	78 874
	8 867 091	**6 405 077**

In-kind benefits

The Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties.

Remuneration of mayor

Salary	352 648	385 496
Car Allowance	120 172	143 421
Contributions to Medical and Pension Funds	70 226	60 104
Public Office allowances	141 563	16 354
Cellphone allowance	27 402	26 532
	712 011	**631 907**

Remuneration of speaker

Salary	370 037	274 303
Car Allowance	96 118	104 063
Contributions to Medical and Pension Funds	28 354	44 173
Reinbursive allowances	3 203	330
Cellphone allowance	18 396	16 030
	516 108	**438 899**

Remuneration of chief whip

Salary	377 670	271 626
Car Allowance	54 633	102 568
Contributions to Medical and Pension Funds	57 869	43 466
Cellphone allowance	18 396	16 963
	508 568	**434 623**

Remuneration of executive councillor

Salary	1 697 215	539 731
Car Allowance	417 977	212 246
Contributions to Medical and Pension Funds	249 074	88 104
Cellphone allowance	92 973	36 028
	2 457 239	**876 109**

26. Administrative expenditure

Administration and management fees - third party	94 486	87 321

The amounts in the note relates to payments for charges on cash in transit.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

27. Debt impairment

Debt impairment	2 612 637	5 737 263

Refer to note on consumer debtors.

28. Interest revenue

Interest on Investment	158 415	687 612
Interest on current account	764 200	310 841
Interest received on outstanding consumer debtors	3 192 963	2 788 515
	4 115 578	**3 786 968**

29. Depreciation and amortisation

Property, plant and equipment	37 491 261	32 575 115

30. Finance costs

Bank and long term loans	-	43 385
Other interest paid	1 012 062	1 156 808
	1 012 062	**1 200 193**

31. Auditors' remuneration

Fees	1 944 500	2 233 106

32. Operating lease

The operating leases are in respect of photocopiers and two properties utilised in the operations of the Municipality.The leases are structured as pure operating equipment not machine specific and based on the current load and requirements of the Municipality. The leases are short term leases and for future leases not subject to escalation.
The business equipment are tested annualy for capitalisation requirements but does not qualify to be capitalised at this stage.

2012 Statement of Financial Performance	775 720	793 400

The following is a schedule by years of minimum future rentals on non-cancelable oprating leases as of June 2012:

< than 1 year until 30 June 2011 or 2010	531 700	760 046
> than One year < 5 years	290 472	727 890
	822 172	**1 487 936**

33. Bulk purchases

Electricity	17 671 187	14 656 946

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

34. Cash generated from operations

Deficit	(13 436 948)	(5 691 589)
Adjustments for:		
Depreciation and amortisation	37 491 261	32 575 115
Gain on sale of assets and liabilities	461 561	110 826
Fair value adjustments	1 336 000	-
Debt impairment	2 612 637	5 737 263
Movements in operating lease assets and accruals	(22 489)	(5 563)
Movements in retirement benefit assets and liabilities	1 726 000	231 518
Other non-cash items	-	946 333
Changes in working capital:		
Inventories	(214 636)	398 965
Receivables from exchange transactions	(802 802)	(770 863)
Other receivables from non-exchange transactions	-	197 900
Consumer debtors	(2 143 197)	(6 122 667)
Payables from exchange transactions	(2 222 214)	1 346 919
VAT	2 405 026	1 378 516
Unspent conditional grants and receipts	5 613 725	(6 074 146)
Consumer deposits	36 056	(9 566)
	32 839 980	**24 248 961**

35. Related parties

Relationships	
Post employment benefit plan for employees of entity and/or other related parties	Municipal Gratuity Fund
The water and sanitation functions are demarcated in the Demarcation Act by the Local Municipality on behalf of the District Municipality.	Refer note below
The agreement is structured as an agency principal relationship with the District Municipality being the water service authotity.	Refer note below
The agreement is structured as an agency principal relationship with the District Municipality being the water service authority	Refer note below
UIF is deductuble for all councillor's from 01 July 2009	Refer note below
Rentals to employees - SARS tax payable	Refer note below

Related party balances

Loan accounts - Owing (to) by related parties		
Sekhukhune District municipality: Receivables	4 632 899	3 882 955
Other		
Sekhukhune District Municipality: Agency fees	2 039 669	2 065 614
SARS Payable On Fringe Benefit	(20 839)	(20 839)
Council - Salaris short paid	(30 727)	(30 727)
Council - Salaries over paid	6 505	6 505
Employee - Rental fringe benefit	28 914	28 914

Figures in Rand	2012	2011

36. Prior period errors

The following prior year errors were identified and adjusted retrospectively:
Corrected in 2011/2012 finacial year

- An adjustment was processed in the current year for the travel claim expense of 2010 that was not cleared on the bank reconciliation from the salary control account to the value of R7 2 33.

- The prior year error of R106 689 715.88 relates to the transfer of assets from the municipality to the District municipality. This assets were transferred free of charge. The effects of the transaction is restated to the year the water transaction resolution was passed by council in accordance with the accounting policy for transfer of functions between entities under common control.

The correction of the error(s) results in adjustments as follows:

	2012	2011
Statement of financial position		
Accumulated surplus - Correction of prior year error	7 233	7 233
Accumulated surplus - Prior year adjustment(SDM Debtor)	106 689 716	106 689 716
Trade and other payables travel and accomodation	(7 233)	(7 233)
Property Plant and Equipment	(106 689 716)	(106 689 716)

Cash flow statement

37. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 12, cash and cash equivalents disclosed in note 11, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the municipality may adjust the amount of dividends paid to members, return capital to members, issue new shares or sell assets to reduce debt.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Figures in Rand	2012	2011

37. Risk management (continued)

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

38. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

39. Events after the reporting date

No significant events have occured since the reporting date requiring disclosure in the financial statements.

40. Unauthorised expenditure

Opening Balance	25 218 264	-
Current year	37 491 261	25 218 264
Less: Prior year amounts not recoverable (not condoned)	(25 218 264)	-
	37 491 261	**25 218 264**

Non compliance to MFMA S29(1),(2) and (3). The amounts included in the note were not condoned by council.

41. Fruitless and wasteful expenditure

Opening Balance	45 741	-
Current year	18 022	45 741
Less: Prior year amounts not recoverable (not condoned)	(45 741)	-
	18 022	**45 741**

Details of Fruitless and wasteful expenditure – current year

Interest Incurred on late payments	Auditor General and Eskom	17 167
Mayor Missed flight already paid for	SAA	855
		18 022

<u>Incident</u>

Interest and penaties were incurred by the Municipality due to late payments made to Eskom and The Office of the Auditor General.The amounts also includes payment charges for a flight missed by the Mayor.

42. Irregular expenditure

Opening balance	2 257 144	2 257 144
Add: Irregular Expenditure - current year	110 000	-
Less: Prior amounts not recoverable (not condoned)	(2 257 144)	-
	110 000	**2 257 144**

Figures in Rand	2012	2011

42. Irregular expenditure (continued)

Analysis of expenditure awaiting condonation per age classification

Current year	110 000	2 257 144
Prior years	2 257 144	-
	2 367 144	**2 257 144**

Details of irregular expenditure – current year

Shades procured for Leeufontein Taxi Rank	Approved per Sec 37(1)(a)(d) of SCM Policy	110 000

Details of irregular expenditure not recoverable (not condoned)

Non-compliance with section 38 of the DORA act, resulting in irregular expenditure	2 257 144

Incident

The irregular expenditure in 2011 was incurred as a result of MIG funds being utilised to pay creditors. This was regarded as a contravention of section 38 of the DORA act, and resulted in irregular expenditure. This matter was not condoned by council.

The irregular expenditure in 2012 was incurred to pay a supplier for the supply of shades for the Leeufontein Taxi rank. Refer to Deviation from supply chain management regulations Note.

43. Commitments

VAT

VAT receivable	-	1 531 241
VAT payable	873 785	-
	873 785	**1 531 241**

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Contract commitments

Through inspection of the contract register commitments amounting to R9 265 454.81 are outstanding as at 30 June 2012(2011:- R13 878 124.58).

44. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	-	7 493 725

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act.

Figures in Rand	2012	2011

45. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Shades for the Leeufontein Taxi Rank were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

46. Contingent Assets and Liabilities

Civil Matters against the Municipality':

1. **Kopano Ke Maatla Business Enterprises** -The Plaintiff, Kopano Ke Maatla Business Enterprise, instituted an action against the Municipality for services rendered. The Plaintiff is suing the Municipality for failing to pay an amount of R42 500.00 for the diaries and calendars which were delivered by the Plaintiff to the Municipality.

2. **Kwana's Business Enterprise** -The Plaintiff instituted a civil action demanding an amount of R 585 709.45 from the Municipality. The salient facts of the matter are that during 2006, the company tendered for the upgrading of the Marble Hall bulk storm water drainage system. The company commenced with construction of the storm water drainage system in 2006. On or about the 12 April 2007, the Municipality instructed the Plaintiff to suspend all the works in regard to the project.

3. **Ismael Ayob & Partners** - The Attorneys instituted a civil action demanding an amount of R 92 887.00 from the Municipality. Summons was issued at the Magistrates Court of Groblersdal for services rendered by the Attorneys to the Municipality.

4. **Iland Africa & Vince Homes JV** - The company is suing the municipality for the payment of R 1 509 010.50 for an outstanding payments for the job done.

Summary of civil matters against the municipality		
Kopano Ke Maatla Business Enterprise	42 500	42 500
Kwana's Business Enterprise	585 709	585 709
Ismael Ayob & partner	92 887	92 887
Ilanda Africa & Vince Homes JV	1 509 011	1 509 011
	2 230 107	**2 230 107**

Notes to the Annual Financial Statements

Figures in Rand

47. Statement of comparative and actual information

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Property rates	11 785 820	11 785 820	11 785 820	11 215 705	570 115	95 %	95 %
Service charges	37 254 070	37 254 070	37 254 070	33 149 311	4 104 759	89 %	89 %
Investment revenue	3 397 139	3 533 243	3 533 243	4 115 578	(582 335)	116 %	121 %
Transfers recognised - operational	86 376 423	86 376 423	86 376 423	80 291 425	6 084 998	93 %	93 %
Other own revenue	10 754 797	10 116 506	10 116 506	7 590 004	2 526 502	75 %	71 %
Total revenue (excluding capital transfers and contributions)	**149 568 249**	**149 066 062**	**149 066 062**	**136 362 023**	**12 704 039**	**91 %**	**91 %**
Employee costs	(42 022 041)	(41 715 064)	(41 715 064)	(38 497 026)	(3 218 038)	92 %	92 %
Remuneration of councillors	(8 405 202)	(8 405 202)	(8 405 202)	(8 867 091)	461 889	105 %	105 %
Debt impairment	-	-	-	(2 612 637)	2 612 637	- %	- %
Depreciation and asset impairment	(2 317 038)	(2 317 038)	(2 317 038)	(37 491 261)	35 174 223	1 618 %	1 618 %
Finance charges	(2 385 080)	(1 709 080)	(1 709 080)	(1 012 062)	(697 018)	59 %	42 %
Materials and bulk purchases	(19 223 261)	(19 223 261)	(19 223 261)	(17 679 523)	(1 543 738)	92 %	92 %
Transfers and grants	(2 012 000)	(752 000)	(752 000)	(624 409)	(127 591)	83 %	31 %
Other expenditure	(42 019 180)	(45 387 765)	(45 387 765)	(43 014 962)	(2 372 803)	95 %	102 %
Total expenditure	**(118 383 802)**	**(119 509 410)**	**(119 509 410)**	**(149 798 971)**	**30 289 561**	**125 %**	**127 %**
Surplus/(Deficit) for the year	**31 184 447**	**29 556 652**	**29 556 652**	**(13 436 948)**	**42 993 600**	**(45)%**	**(43)%**

Notes to the Annual Financial Statements

Figures in Rand

47. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources							
Total capital expenditure	27 879 667	29 309 059	29 309 059	-	29 309 059	- %	- %